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RUEHRC/DEPT OF AGRICULTURE WASHDC PRIORITY

RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

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SUBJECT: CAN AGRICULTURE SECRETARY WEATHER POLITICAL
TURBULENCE?

1. (U) This message is based on Embassy FAS reporting.

2. (SBU) Summary: Agriculture Secretary Cardenas has become the favorite whipping boy of the entire ag community. There was no surprise that the rhetorical heat from NAFTA opponents has risen since the January 1 implementation of the final opening of Mexico's corn, dried bean, milk powder and sugar markets. They have been demanding re-negotiation of the trade agreement's agricultural provisions for years. But the clumsy handling of new rules governing Mexico's farm support programs, which all farm sectors feel were rammed through with little chance for input from affected sectors, seem to have alienated even those farmers who have benefited from NAFTA. On top of all this, price hikes for gasoline, other inputs, and commodities in general have given critics of the Calderon Administration further ammunition. There are persistent rumors in the press and on the Internet that Cardenas, who skipped out of a scheduled January 10 appearance at a high-level bilateral meeting on agricultural trade issues, will be replaced sooner rather than later. None of our GOM contacts report anything firm to either support or refute such rumors, but as Calderon reorganizes his Cabinet, Cardenas' near-total lack of support in the agricultural community must weigh heavily. End summary.

Cardenas Rejects Demands to Re-Negotiate NAFTA

3. (U) There are sectors of the Mexican agricultural community that have taken great advantage of NAFTA, such as fruit and vegetable exporters and livestock owners who benefit from cheap imported feed. Opponents of the free trade agreement, however, warn that the final lifting of trade barriers could spark even more migration from Mexico's devastated countryside and leave Mexico dependent on the U.S. for corn and beans, both staples of the Mexican diet. In fact, U.S. corn and bean exports to Mexico are not expected to rise dramatically this year, since Mexico had already been allowing more corn imports than required by NAFTA in the years leading up to final liberalization. Also, Mexican corn farmers primarily grow the white maize used to make tortillas for human consumption, and thus are not in direct competition with U.S. corn exports, which consist of yellow corn for animal feed. With regard to beans, their consumption is falling in Mexico as consumers turn increasingly toward meat for their protein, a development facilitated by the availability of U.S. yellow corn for feed. But even though the economic facts on the ground do not lend support to the anti-NAFTA arguments, they continue to resonate emotionally for many Mexicans and provide a convenient rallying cry for

poor farmers who feel they have been ignored for decades.

14. (U) The main groups that have been protesting NAFTA are the:

-- National Farmers Confederation (CNC - closely tied to the Institutional Revolutionary Party (PRI) which ruled Mexico for seventy years and is now one of the two main opposition parties). The CNC represents mainly medium and small growers. Several PRI lawmakers and governors are members of this group. Cruz Lopez, CNC's president, has pointed out that domestic corn farmers fear they will go out of business due to their inability to compete with imports from the U.S., thus leaving Mexico dependent on the United States for its basic food needs. "There is an abyss between the subsidies we receive and those of the Canadian and U.S. farmers," Lopez has stated. "For us, it is very important to guarantee to the Mexican people that we can produce corn and beans."

-- Cardenista Peasants Central (CCC) and the National Association of Trader Companies (ANEC). Both these left-leaning groups have criticized the GOM for its lack of attention to the repercussions of full NAFTA opening. Max Correa, CCC's leader, has told Mexican media that "if this refusal to protect national growers continues on the part of the government...the countryside could take the path of weapons and the guerrilla. It is not a catastrophic vision, it's a reality." He also brandishes the statistic that since NAFTA's entry into force, it has lost nearly 3 million farm jobs and seen massive migration from the countryside to the U.S. An estimated 80 percent of the 400,000 Mexicans who annually migrate to the United States are from rural areas.

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-- Lawmakers in both chambers of the Mexican Congress have also asked the GOM to re-negotiate NAFTA's agricultural provisions. Members of the leftist Democratic Revolutionary Party (PRD - currently the largest congressional opposition party) have called on Calderon's administration to re-open the trade agreement and remove corn and beans from the list of unprotected goods. They have also suggested recourse to the WTO. The center-left PRI (the third largest congressional party behind the ruling center-right PAN and the leftist PRD) has been somewhat more cautious, but there have been recent rumblings that some PRI senators are leaning toward their PRD colleagues. Although initial analysis indicates there is no way these politicians could compel the GOM to re-negotiate NAFTA, such a coalition could increase political pressure on the Administration to address agricultural concerns.

15. (U) There have been numerous protests against NAFTA in the new year. Police had to break up one demonstration organized by CNC, CCC, and other dissidents that took place outside the venue where Secretary Cardenas was meeting with other farm groups on January 10. Cardenas used the occasion to clarify that there would be no re-negotiation of NAFTA, indicating that both the U.S. and Canada had rejected the idea and pointing out that Mexico had more to lose than to gain from such a move, given its bilateral trade surpluses with both its North American neighbors. President Calderon and Economy Secretary Eduardo Sojo also have made strong public comments

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about the clear net benefits NAFTA has generated for Mexico. Nonetheless, NAFTA continues to be a rallying point for disaffected farm groups and a mega-march that will end in Mexico City's central plaza (the Zocalo) is being planned for January 31. CCC, CNC, and ANEC, among others, are planning to participate.

New Rules of Operations

16. (SBU) NAFTA opposition has been a long-standing part of

Mexico's political landscape. Adding to the usual complaints that the opening to corn and beans will devastate small farmers, are concerns about the recently implemented increase in the gasoline tax, and concerns about rising prices for other inputs and commodity prices in general. Most importantly, there is considerable anger about recent changes in the Agricultural Ministry's (SAGARPA) rules of operation in farm programs, which all farm sectors feel were rammed through with little chance for input.

¶17. (SBU) Although the agricultural budget was increased 15% for 2008 (to approximately USD 18.5 billion), on December 31, 2007 SAGARPA published new rules to streamline farm support programs. Each group that has long benefited from having a piece of agricultural support funds, fears that the changes will reduce their share of the pie. The controversy is over new operational rules for the "Concurrent Special Program for Sustainable Rural Development. The Special Program aims to improve rural livelihoods and agricultural productivity and competitiveness. Among other things, the new rule changes consolidate 46 programs into 8, and centralize control in the federal government, cutting state-level groups out of decisions on who gets support and money. In order to reduce the procedures for farmers to seek benefits, the new rules reduce the ability of groups representing farmers to be involved in allocating support funding. Many of these groups, especially those claiming to represent small farmers, have long been accused of being more concerned about delivering votes for political parties than benefiting farmers. Because the new rules seek to benefit the poorest farmers, commercial farmers, including those most supportive of NAFTA, fear they will receive less money.

¶18. (SBU) During December, in a contentious and agitated appearance before Mexico's Congress, Secretary Cardenas was accused by opposition members of being inept, insensible, arrogant and a liar, and was asked to consider resigning. Cardenas explained that the new rules were designed to eliminate red tape and corruption by making resources available directly to agricultural workers. He remarked that several "social leaders" were not comfortable with the changes, noting that the changes represented an attempt to eradicate "corruption and illicit enrichment" benefiting leaders of groups representing agriculture.

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¶19. (SBU) While agricultural groups have known for some months that SAGARPA was seeking to modify these operational rules, the speed with which the new rules were published seems to have surprised everyone. On the surface, the changes sounded like much-needed reforms to eliminate many of the numerous hurdles people faced when seeking benefits. The surprise early release, however, seems to have united the full range of agricultural groups in opposition. In addition to complaints noted above, the CNC and CCC complain that the rules were published unilaterally without taking into consideration their proposals.

¶10. (SBU) While the CNC had been relatively quiet in the run up to the final implementation of NAFTA, the announcement of the new operational rules for support programs has made them more animated and militant. At their annual meeting on January 7 and 8, they called for President Calderon to honor the 2003 National Accord for the Countryside, which calls for renegotiation of NAFTA to eliminate corn and beans from the agreement. After its annual meeting, the CNC reversed its previously announced position and said it would participate in the CCC and ANEC-announced mega-march on January 31 in Mexico City, that will start in Chihuahua and pick up protesters and tractors along the way.

Changes at the Ag Ministry?

¶11. (SBU) Industry and political sources are rife with

rumors about personnel changes to appease the sector's disenchantment with Secretary Cardenas who has managed to upset major agricultural producers, processors, state agricultural leaders, small producers, and the Mexican Congress. All have publicly expressed a lack of confidence in Cardenas and the need for change. Even as recently as this week the PRI faction in the lower house called Cardenas stubborn and deaf to the needs of agriculture for his failure to respond at all to their calls to reexamine the effects of NAFTA on Mexican farmers. Calderon's recent sacking of both his Secretary of Interior (Gobernacion) and Social Development (SEDESOL) foreshadow additional changes. Some suggest; however, that Agriculture Under Secretary Lopez Tostado, directly responsible for the new rules that have upset the industry, will take the fall. Finally, others suggest that all of the SAGARPA leadership team should go.

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